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Report on the activities of the Office of Internal Oversight Services

Report on the activities of the Office of Internal Oversight Services for the period from 1 July 2006 to 30 June 2007

Note by the Secretary-General

The Secretary-General has the honour to transmit for the consideration of the General Assembly his comments on part one of the report on the activities of the Office of Internal Oversight Services for the period from 1 July 2006 to 30 June 2007 and the related addendum (A/62/281 (Part I) and Add.1).

Summary

The report of the Office of Internal Oversight Services covers the activities of the Office from 1 July 2006 to 30 June 2007. In the present note, the Secretary-General provides comments on a number of issues which he considers require clarification.

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I. Introduction

1. The report on the activities of the Office of Internal Oversight Services (OIOS) for the period from 1 July 2006 to 30 June 2007 and the related addendum are welcomed. While every effort is being made to ensure the full implementation of the recommendations contained in the report, clarifications on a number of specific issues are provided below for the information of Member States.

II. Comments on specific paragraphs of the report on the activities of the Office of Internal Oversight Services for the period from 1 July 2006 to 30 June 2007

Ensuring a strategic use of resources[1]

Internal Audit Division[2]

2. In paragraph 16 of the report, OIOS stated that it plans to have a fully risk-based workplan for the 2008 calendar year and that a funding mechanism that would afford the flexibility necessary to implement such a plan would be presented to the General Assembly for its consideration. In this regard, the funding for and approval of the programme of work and budget for OIOS need to be analysed in the wider context of the financial management of the Organization. There will continue to be a need for stringent budgetary approval and control systems, and any funding and budgetary mechanism envisioned for OIOS will have to meet those high standards.

Impediments to work[3]

United Nations Compensation Commission[4]

3. In paragraph 29, OIOS indicated that the Governing Council of the United Nations Compensation Commission had decided not to fund any internal audit coverage for the second half of 2007 and that, considering the fact that more than $30 billion in unpaid awards still remained, it was the opinion of OIOS that that decision had exposed the Commission to an unacceptably high level of risk. In response, the Commission stated that its Governing Council had approved the sum of $100,000 for audit services for the whole of 2007, and not just for the first six months, as indicated in paragraphs 27 and 77 of the OIOS report. It was the decision of OIOS to use the full amount approved by the Governing Council for audit in 2007 to cover the costs of one auditor for the first six months of 2007.

4. In addition, the Governing Council of the Commission revisited the question of OIOS resources at its sixty-third session, held in June 2007. The structure and activities of the Commission have changed in 2007 in the light of the winding down of its operations. The number of Secretariat staff of the Commission has been significantly reduced, as has its budget. Taking those factors into account, and noting that the OIOS audit in 2007 needed to be consistent with the winding down of the operations of the United Nations Compensation Commission, and in the

[1] A/62/281 (Part I), para. 16.
[2] Ibid., para. 20.
[3] Ibid., para. 29 (d).
[4] Ibid., para. 77.

absence of new audit activities by OIOS, the Governing Council affirmed its previous decision and concluded that the allocation of $100,000 for 2007 would be sufficient. The Governing Council nevertheless also decided that, at its next meeting, consideration would be given to allocation of resources for an OIOS audit in 2008 in the light of any audit workplan that OIOS may submit for that period.

5. It should also be noted that the sum of $30 billion in compensation award funds remaining to be paid out by the United Nations Compensation Commission is not an appropriate measure of the adequacy of the resources allotted by the Commission for OIOS or of the accordant risk, as indicated by OIOS in its report.[3] Not only is the $30 billion in unpaid awards never actually available to the United Nations Compensation Commission at any one time, but under the Secretariat's current projections, the remaining 33 claims to which the full $30 billion is owed will not be paid in full until 2024, at the very earliest. Thus, rather than correlating the adequacy of annual OIOS resources to the $30 billion expected to be paid out by the Commission over the course of the next 18 years, a more appropriate measure would be the actual amounts that flow through the Compensation Fund annually (approximately $1.5 billion at the current rate), if not the administrative budget of the Commission. Furthermore, payment is made pursuant to comprehensive and detailed claims payment procedures that have been the subject of two recent audits by OIOS, the first in 2005 and the second in 2006-2007, as well as audit by the United Nations External Board of Auditors. The date of the most recent report of OIOS in connection with the claims payment procedures of the Commission is 19 June 2007, and to the best of the Secretariat's knowledge, OIOS does not intend to conduct a further audit of claim awards payments in the latter half of 2007, nor would there be any reason to do so in the light of the findings of OIOS concerning the adequacy of the controls and procedures that are in place.

6. Furthermore, the United Nations Compensation Commission would like to recall that it has not been the practice of OIOS to conduct audits simultaneously with the activities under review, but rather to approach its assessments retrospectively. In this vein, it will be possible for OIOS to conduct in 2008 any necessary review of the payment activities of the Commission in the second half of 2007.

Audit of the application of the best value for money principle in the Organization's procurement of goods and services[5]

7. With regard to paragraph 61, the Procurement Division has already revised its definition of best value for money. This definition will be included in the revised Procurement Manual 2007 and in training programmes to be delivered at Headquarters and external locations.

Audit of the response of the Office for the Coordination of Humanitarian Affairs to the earthquake in Pakistan[6]

8. With regard to its audit of the response of the Office for the Coordination of Humanitarian Affairs to the earthquake in Pakistan (AN2006/590/02), OIOS stated that the Office had agreed in principle with the recommendation that, in consultation

[5] Ibid., para. 61.
[6] Ibid., para. 66.

with the Inter-Agency Standing Committee, which appoints the deputy humanitarian coordinators, it develop a roster of deputy humanitarian coordinators, heads of office and field coordinators who would be ready for deployment on short notice and would ensure a stable management of the office. It should be noted that the Office for the Coordination of Humanitarian Affairs has not fully implemented this recommendation, as it was rejected by the Inter-Agency Standing Committee. However, the Office for the Coordination of Humanitarian Affairs has established a pool of humanitarian coordinators who remain on standby and can be drawn upon when the situation warrants their involvement.

III. Comments on the addendum to the report on the activities of the Office of Internal Oversight Services for the period from 1 July 2006 to 30 June 2007[7]

Investigation reports PTF-R005/06 and PTF-R006/06[8]

9. In paragraph 7, reference to "a scheme between an aviation official and a vendor to steer certain contracts for goods associated with runways at a peacekeeping mission to the company". It should be clarified that the aviation official referred to in the report, in the context of possible criminal violations, is no longer a staff member of the United Nations. OIOS also stated that the Organization had not pursued recovery efforts, to date, in connection with a procurement exercise in the amount of $589,000, which the Procurement Task Force found to have been conducted in violation of procurement and financial rules, for goods which were not compliant with the relevant standards in existence at the time. The cases of the staff members involved in this procurement exercise are under active consideration, and only when the outcome is known will it be possible to determine whether there is a valid basis for financial recovery to be pursued under the established procedures.

Investigation report PTF-R003/06[9]

10. In paragraph 8 of the addendum to its report, OIOS stated: "The Organization has not yet taken action to pursue the recovery of damages, pending a court determination on restitution scheduled for 22 October 2007." However, in the period following the conviction of Sanjaya Bahel, the Office of Legal Affairs, through the assistance of the Organization's outside counsel in that matter, has taken several steps to ensure that the Organization would be in a position to seek restitution from Mr. Bahel. In particular, it has been in regular contact with the appropriate United States authorities and is currently in the process of calculating the financial loss incurred by the Organization as a result of Mr. Bahel's conduct, which would form the basis of the Organization's submission to United States authorities for its claim of restitution against Mr. Bahel. In order to calculate such loss, the Office of Legal Affairs has recently requested several other offices and departments, including OIOS, to provide it with certain information regarding Mr. Bahel's activities and the investigation into his conduct. The Organization will then be in a position to make its submission to the United States authorities.

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[7] A/62/281 (Part I)/Add.1.

[8] Ibid., para. 7.

[9] Ibid., para. 8.

Investigation report PTF-R001/07[10]

11. Regarding the investigation of OPG Industries Inc. OIOS stated that: "The Office of Legal Affairs has advised the Secretary-General that the matter should be pursued in arbitration, because the dispute arises under the purchase orders involved. However, OIOS is of the view that because this matter involves criminal activity and a fraudulent scheme, it can be pursued by referring it to prosecutorial authorities or taking affirmative civil action to recover damages." It should be noted that that statement does not accurately represent the advice of the Office of Legal Affairs in the matter. Rather than recommend that the matter be pursued in arbitration, the Office of Legal Affairs opined that, in view of the contractual arrangements between the Organization and OPG Industries Inc., arbitration would be the sole option available to the Organization with respect to its claims of a private nature against the company. Further, the Office of Legal Affairs has expressed to OIOS its readiness to refer this matter to the United States authorities, in the manner in which it considers to be best suited to the interests of the Organization.

Recommended and actual cost savings and recoveries[11]

12. It is noted that OIOS has claimed a total of $27.8 million in cost savings and recoveries and that actual savings and recoveries totalled approximately $12.9 million. The identification of savings has continued to be the subject of much debate within the Secretariat. The savings reported by OIOS in its report seem to consist of a combination of cost avoidance, recovery of overpayments, efficiency gains, recovery of erroneous disbursements, rationalization and/or streamlining of processes.

13. In this context, the Secretary-General reiterates his view that only funds surrendered to Member States should be considered as savings. It is questionable whether the cost avoidance, recovery of overpayments, efficiency gains, recovery of erroneous disbursements, rationalization and/or streamlining of processes mentioned by OIOS in its report would lead to any release of resources available for return to Member States. It should also be noted that in some cases, the savings and recovery identified by OIOS refer to audit recommendations pertaining to earlier financial periods which have already been closed.

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[10] Ibid., para. 9.
[11] Ibid., para. 18.